

Testimony of  
Honorable Don Fuqua  
President  
Aerospace Industries Association  
1250 Eye Street NW  
Washington, DC

Before  
Committee on Commerce, Science and Transportation  
Subcommittee on Aviation  
Legislation Pertaining to the Regulation of Foreign Repair Stations  
May 7, 1998

Mr. Chairman and Members of the Subcommittee

AIA welcomes this opportunity to appear before this subcommittee on behalf of the nations leading manufacturers of transport aircraft, jet engines and related components. Our members acting individually and through AIA have been in the forefront of efforts to improve aviation safety both domestic and foreign. To that end, we have supported the modernization of the FAA regulations governing the certification of foreign repair stations that recognize the international nature of the aerospace industry and U.S. obligations under its multilateral trade agreements.

Since the regulations became effective in 1988, on four separate occasions legislation has been introduced to examine the FAA decision to certify foreign repair stations. The two main concerns cited with the introduction of the legislation were aviation safety and loss of U.S. jobs. We believe that a non-restrictive regulation is essential in the international air transportation environment and, no probative evidence has been presented to indicate that aviation safety has been impaired under the current provisions of 14 CFR 145. U.S. aerospace employment in support of maintenance and manufacturing operations and parts production is a valuable contributor to the favorable balance of trade in the aerospace sector. Should the proposed legislation be enacted, it is likely that the current favorable position will suffer a net loss. In each prior instance after much debate on the issues of safety and jobs, little evidence was presented supporting the need for the elimination of this class of repair stations and the current regulations have prevailed. Congress elected not to proceed with unsubstantiated proposals.

We will first address the issue of aviation safety. We would like to make it clear that we are only talking about FAA certified foreign repair stations following FAA approved maintenance procedures. The FAA has always required that all work performed for a U.S. registered aircraft be accomplished in accordance with FAA approved maintenance operations specifications. Foreign repair stations which have been found properly qualified and certificated by the FAA and have been operating in accordance with FAA requirements and

surveillance and have been providing safe and proper maintenance and alterations on U.S. registered aircraft and their components for many years. Contrary to allegations that the FAA is unable to fulfill its regulatory obligations, no substantial evidence to support these allegations has been presented by any supporter of the proposed legislation.

When the regulation was instituted in 1988, after extensive comment by industry and labor the FAA concluded that foreign certification of repair stations would not derogate safety. Through their respective oversight procedures the FAA and industry intend that safe maintenance

practices will continue and that safety will not be adversely affected by the continuing application of the current regulations. Each foreign repair station whether affiliated with a U.S. OEM or a foreign entity must prove to the FAA that it fully complies with all the Part 145 requirements to be an authorized U.S. certified repair station before the FAA will issue a certificate to work on U.S. registered aircraft. When the FAA issues a foreign repair station certificate, a finding must be made that the holder is competent to perform safely the repair for which it is rated. Prior to the issuance of such a certificate, the FAA reviews the required detailed application, analyzes the stations proposed inspection procedures and quality control system including proper documentation, and reviews the qualifications of foreign repair personnel which are certified by the country in which the station is located. This will ensure that they are able to perform the work for which the repair station is rated. The repair station or rating must be renewed every 12 or 24 months in accordance with Part 147.17 requirements. If at any time the repair station fails to comply with the FAA requirements, its certificate can be suspended or revoked.

This certification process for a foreign repair station is substantially the same as the process the FAA uses for domestic repair facilities whether they are independent or affiliated with an OEM and involves the same standards. As long as foreign repair stations are examined by the FAA before they are certified, meet the same standards for certification as domestic repair stations and are thereafter subject to the same level of surveillance, you can be assured of their ability to repair and maintain U. S. registered aircraft. There is no credible evidence on the record to support assertions that the FAA has not fulfilled their mandated oversight obligations and that Part 145 in its current form will degrade safety.

Our belief in the current safety oversight system was reinforced by the GAO's report on FAA oversight of repair stations (GAO/RCED-98-21). The following key findings were in our opinion the most significant:

- Documentation of inspections and follow-up was better in FAA's files for foreign repair stations.
- The FAA inspectors interviewed who had conducted inspections of both foreign and domestic repair stations were unanimous in concluding that compliance occurred more quickly at foreign facilities. This could be a result of the FAA requiring foreign repair stations to renew their certification at least every two years. In contrast to domestic stations, where certification is permanent unless it is surrendered by the applicant or suspended or revoked by the FAA.
- Upon inspection of the European International Field Offices it was noted that they are not faced with many of the other responsibilities that domestic offices must handle -- such as overseeing pilot and mechanic schools, agricultural aircraft, and certificate management

of air carriers -- the primary focus is on repair station oversight. All of the inspectors interviewed at the European offices said they spend 80% or more of their time on repair stations, whereas inspectors at domestic offices said they spend only about 30% of their time on surveillance of all types of facilities, including repair stations.

- The GAO also found that when direct comparisons could be made, team inspections (which are utilized in almost all of the foreign inspections) were shown to be more effective than individual inspections (utilized in almost all of the domestic inspections) in identifying those areas in which repair stations were not in compliance with FAA's rules and regulations, even if one inspector visited the facility several times and the team visited it just once. Furthermore, a substantial majority of inspectors surveyed supported the use of more team inspections.

We would now like to address the issue of employment. In addition to the lack of any safety justification for the proposed legislation, AIA members are greatly concerned regarding the consequences of this legislation as it could impact their business strategies. Should U.S. operators be restricted from using foreign repair stations, foreign aviation authorities and possibly the European Union might retaliate by restricting foreign registered aircraft from placing work at U.S. based repair stations. A survey of AIA member companies involved in repair and maintenance activity in support of their products as well as aircraft of foreign registry indicates that U.S. domestic repair stations currently derive considerably more business from foreign customers than U. S. certified foreign repair stations receive from U. S. customers. This survey data (see N/A Table A) can be summarized as follows:

- Work on foreign registered aircraft accounted for 38% of total business performed at U. S. based repair stations.
- For every \$1 of work performed on a U.S. registered aircraft at a foreign repair station there is \$3.50 worth of business performed at U.S. based stations on foreign registered aircraft.
- Should foreign governments retaliate by restricting foreign carriers from being serviced by any U.S. owned company regardless of location such action could reduce current U.S. repair business by 41%.

As can be determined from the survey report, the real threat to aerospace employment would be the establishment of trade barriers that could result in foreign retaliation impacting not only domestic repair station work but overall U.S. aerospace sourcing of spare parts, equipment and resources necessary to support the manufacturing process. In the total marketing scheme, the sale of equipment is accompanied by warranties and a commitment by OEMs to support their products. Any restriction that would create a barrier to the normal business process such as the

reversal of Part 145 would encourage foreign sourcing that could ultimately result in a net loss of employment in the U.S. in both the repair and manufacturing sectors.

#### **TABLE A**

The following totals relate to 1996 repair station activity as reported by the AIA companies that responded to the survey:

- Revenues generated doing work on U.S. registered aircraft at U.S. based repair stations totaled \$649 million.
- Revenues generated doing work on U. S. registered aircraft at U.S. owned overseas repair stations totaled \$113 million.
- Revenues generated doing work on foreign registered aircraft at U.S. based repair stations totaled \$394 million.
- Revenues generated doing work on foreign registered aircraft at U.S. owned overseas repair stations totaled \$144 million.

Turning to the subject of leasing, aircraft leasing has become the predominant way of conducting business rather than outright ownership. As airlines have adapted to tailoring their fleets to meet operational requirements without heavy capital investments, aircraft can be moved from one route to another, from one carrier to another and from one country to another. Within the international aviation industry the proposed legislation if enacted will create artificial trade barriers in the global aviation industry and impose costly geographic constraints on a major percentage of aircraft operations and related maintenance requirements.

Many foreign operated aircraft that are not utilized in operations involving U.S. territory, are under lease from U.S. business interests and thus have a U.S. registry. They will be subject to any restrictions placed on foreign repair stations. The September 3, 1997 issue of Aviation Daily reported the International Lease Finance Corporation (ILFC) a U.S. business concern ordered 126 aircraft, 65 from Airbus and 61 from Boeing. ILFC now has firm orders for 266 Airbus aircraft, equipment that is predominantly used in foreign operations. It is quite likely that any restriction on the use of foreign repair facilities will limit these operators flexibility, their range of choices and operating costs and could lead to a re-evaluation of lease arrangements. This would be to the detriment of U.S. business interests. Additionally, the certified foreign repair station is an important segment of the OEM product support scheme and an outlet for domestic products. Whether the equipment is under lease or owned outright, the OEM still has contractual responsibility for his product.. Thus, enactment of the proposed legislation may also have an unfavorable impact on international trade in the leasing sector and in sale of support products.

The proposed restrictions on FAR Part 145 will also contravene international U.S. agreements. In 1979, the Agreement on Trade in Civil Aircraft was signed into law. The agreement included this important statement: "Certification requirements must be applied equally among foreign countries and no less favorable to foreign countries than to home countries." Additionally, The Agreement on Technical Barriers to Trade or the "Standards Code" also stressed that there could be no unnecessary obstacles to international trade.

It is also probable that any proposal that will infringe upon international trade in aircraft maintenance could be interpreted as a violation of the treaty provisions of the General Agreement on Tariffs and Trade (GATT) and would restrict U.S. OEMs in the marketing of their products and support services abroad. The FAA regulatory process should not be utilized to contravene these agreements nor should the regulatory process be used to establish potential trade barriers.

In conclusion, a continuing favorable aviation safety record, international product support trade considerations and a demonstrated favorable trade surplus in aircraft repair work provide a sound basis for retaining the current FAR Part 145 provisions. A reversal of Part 145 could invite retaliation by our trading partners, would encourage foreign sourcing of equipment and parts and could result in a net loss of employment in the U.S. in both the repair and manufacturing sectors.

We appreciate having the opportunity to address the Subcommittee and I would be pleased to answer any questions.